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September 1989 Monthly Survey

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Surveys of Consumers

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Surge in Consumer Confidence: Prospects for Economy Brighten

Index Rebounds

The Index of Consumer Sentiment was 95.8 in the September 1989 survey, up significantly from the depressed August reading of 89.6. This sharp improvement regained most of the loss recorded during the past year, although it still left the Index below the 97.3 recorded in September of 1988.

The decline and subsequent rebound in the Index over the past two months had only a modest impact on the overall trends. For the third quarter as a whole, the Index of Consumer Sentiment averaged 92.5. Although modestly above the 90.9 recorded in the second quarter, it remained below the third quarter 1988 average of 96.0.

Much of the variation in the Index over the past few months was due to changing attitudes among high income families. Among families with incomes of $40,000 or more, the Index rose to 103.0 in September, rebounding from the 93.1 recorded in August to post a small improvement over the July reading of 101.9. The September 1989 improvement still left the Index of Consumer Sentiment among high income families below the 105.4 recorded in September 1988.

The September improvement was concentrated in more favorable assessments of the outlook for the general economy, supported by favorable perceptions of inflation and employment trends. Overall, the September survey indicates more of a reassessment by consumers of the health and durability of the current economic expansion rather than a resurgence in optimism. Recent declines in inflation and interest rates have improved consumers assessments of the economy.

Leading Indicator Posts Sharp Improvement

The Index of Consumer Expectations, a component of the Index of Leading Indicators, rose to 88.6 in September, up from 80.3 one month earlier, but just below the 89.5 recorded one year earlier. The strong September improvement was due to an improved outlook for the general economy. Overall, the Expectations Index indicates the continued vigor of the current expansion.

For the third quarter as a whole, the Expectations Index averaged 84.8, up from 81.8 in the second quarter, but below the 86.9 in the third quarter of 1988.

Consumers' assessments of current economic conditions also improved in September, but not to the same extent as the expectations measure. The Current Economic Conditions measure rose to 107.1 in September 1989 from 103.9 one month earlier, but remained below the 109.4 recorded in September 1988.

For the third quarter as a whole, the Current Conditions Index fell to 104.4, from 105.2 in the second quarter of 1989 and 110.3 in the third quarter of 1988--the third quarter 1988 reading of 110.3 was the cyclical peak.

Improved Prospects for Economy

Consumers' assessments of the national economy improved significantly in the September 1989 survey over the month earlier readings. These improvements reversed the losses recorded earlier in the year, with most indices regaining their year earlier levels.

Good times financially were expected in the economy as a whole during the year ahead by 55 percent of all families in the September 1989 survey, up from 46 percent in August and 53 percent in September 1988. Prospects for the economy over the longer term also improved, with 41 percent that expected good times financially in the economy during the next five years in the September survey, up from 33 percent in August and equal to year earlier.

It is not that consumers now expect a resurgence in the rate of growth in the economy, but that the current rate of growth will be accompanied by lower inflation rates, and a largely unchanged unemployment rate. The majority of families in the September 1989 survey (59 percent) expected the performance of the national economy during the year ahead to be similar to that of this past year. Many fewer families expected either a significantly higher or lower rate of growth (21 versus 16 percent).

This reassessment of the financial health of the economy, even if the overall rate of growth remains slow, was due to improved expectations for inflation, unemployment, and interest rates.

Inflation. Consumers expected an annual rate of inflation of 4.4% in the September 1989 survey, down from 4.7% one month earlier and 5.5% one year earlier. At 4.4%, the September reading is the lowest expected inflation rate recorded since early in 1988, returning inflation expectations to the levels recorded prior to the drought-induced increases.

Unemployment. The proportion of families that expected the national unemployment rate to remain unchanged at its current level rose to 61 percent in the September 1989 survey from 54 percent one month earlier and 52 percent one year earlier. Importantly, the proportion of families that expected unemployment to increase during the year ahead fell to 26 percent in the September 1989 survey, down from 35 percent in August.

Interest Rates. Following rapid reductions in interest rate expectations in the beginning of the Summer, interest rate expectations have remained largely unchanged during the past two months. Among all families in the September 1989 survey, 50 percent expected interest rate increases, just between the 49 percent recorded one month earlier and the 51 percent recorded two months earlier. Although the downward momentum has largely ended, the improvement has been substantial: half of all families expected increases in the September survey, down from three-fourths six months ago.

Lower Mortgage Rates Boost Home Buying Attitudes

Favorable attitudes toward buying conditions for homes were held by 70 percent of all families in the September 1989 survey, up from 64 percent in August, regaining the level recorded last September.

The improved home buying attitudes were due to lower mortgage interest rates. The proportion of families that mentioned the availability of currently low mortgage rates rose to 36 percent in September from 28 percent in August. This was more than twice the proportion recorded six months earlier, and the highest proportion to favorably assess mortgage rates since mid 1988.

Perceptions of market prices for homes also improved in the September 1989 survey, with 25 percent of all families mentioning the availability of good buys on homes, up from 23 percent in August. Complaints about high home prices were

voiced by 14 percent of all families in September, down from 18 percent in August.

Household Durables

The proportion of families that favorably rated buying conditions for furniture, appliances, and home electronic goods rose to 75 percent in September from 73 percent one month earlier and 71 percent one year earlier. The availability of low and discounted prices for household durables continue to support these favorable attitudes. In the September 1989 survey, nearly five times as many families mentioned the availability of discounted prices than registered complaints about high prices (34 versus 7 percent).

Vehicle Buying Attitudes

Favorable attitudes toward buying conditions for vehicles were held by 61 percent of all families in the September 1989 survey, unchanged from the readings taken one month and one year earlier. Unfavorable assessments of vehicle buying conditions, however, did inch upward, to 30 percent in September 1989 from 28 percent one month earlier and 26 percent one year earlier.

Interestingly, buying attitudes toward vehicles was one of the few survey measures that did not improve in the September survey. Unlike other markets, consumers views of buying conditions for vehicles have become more dependent on the cycles of discount programs offered by vehicle manufacturers. Whereas the reductions in interest rates have had a significant impact on home buying, these declines in market rates have not had a comparable impact on new vehicle sales since the discounted rates offered by vehicle manufacturers were already below market rates.

Personal Finances Remain Favorable

Over the Summer months of 1989, consumers' evaluations of their current financial situation remained largely unchanged. Among all families, 42 percent reported that they were better off financially than a year earlier, just above the 41 percent recorded in each of the two prior months. Fewer reports of income increases were offset by fewer complaints of rising prices.

Compared with a year earlier, however, fewer families reported an improved financial situation in the September survey in 1989 than in 1988--42 versus 49 percent. The decline during the past year has been due to fewer reports of income increases--31 down from 40 percent.

Importantly, consumers continued to favorably view their financial prospects for the year ahead. Among all families in the September 1989 survey, 38 percent expected their personal financial situation to improve, between the 37 percent recorded one month earlier and the 41 percent recorded one year earlier. Nearly half of all families (49 percent) expected their financial situation, considering both changes in incomes and prices, to remain unchanged on balance during the year ahead. Just 9 percent expected their financial situation to worsen during the year ahead.

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The September 1989 survey included 506 completed interviews conducted between September 5 and September 30, 1989.